

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Dual Membership Initial Consideration

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1. Issue

The LEOFF Plan 2 Retirement Board requested a review of how dual membership (also referred to as “portability”) may impact benefit calculations.

2. Staff

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3. Members Impacted

Based on preliminary data as of September 30, 2004, there were 14,754 active, 1,788 inactive and 413 retired LEOFF Plan 2 members. Of the 14,754 active members, 1,485 have dual membership; of the 1,788 inactive members, 505 have dual membership; and of the 413 retired members, 57 have dual membership.

With the passage of SHB 1202 (EMTs into LEOFF who had their jobs moved from the city to a fire department), HB 1205 (Fish & Wildlife Enforcement Officers into LEOFF prospectively) and HB 1936 (EMTs into LEOFF who are in PERS but provide emergency medical services to a town or city) the possibility of creating dual members has increased dramatically.

4. Current Situation

Under the current portability statutes (RCW 41.54), when members meet age and service requirements from one system then they are eligible to retire out of all systems. Not all systems allow for portability. For example, LEOFF Plan 1 and the Judicial Retirement Systems (JRS) are not included in the portability statutes. A complete list of the dual member systems can be found under definitions in section 5.

5. Background Information and Policy Issues

History

Dual membership or portability was first created with the passage of ESSB 5150 in 1987. LEOFF Plan 2 was added as a dual member system in 1993. The purpose of portability was to allow employees who serve the public in multiple careers, to not be penalized because their career path put them in multiple public retirement systems.

Definitions

- **Dual member:** someone who is currently an active member in a dual member system; has previously been a member of one or more of the other dual member systems; has never been retired for service; and is not currently receiving a disability retirement benefit from any public retirement system in the state of Washington.
- **Current system:** sometimes referred to as the “active” system or to the system the member is currently employed.
- **Prior system:** sometimes referred to as the “inactive” system.
- **Dual member system:** includes LEOFF Plan 2; PERS Plan 1, Plan 2 and Plan 3, SERS Plan 2 and Plan 3, TRS Plan 1, Plan 2 and Plan 3; Statewide City Employees’ Retirement System (SCERS); First-class city retirement systems of Seattle, Tacoma, and Spokane; and beginning July 1, 2006, the Public Safety Employees’ Retirement System (PSERS).
- **Indexing:** increases the retirement allowance payable to a member who separates after having completed twenty years of service by twenty-five one-hundredths of one percent, compounded for each month from the date of separation to the date the retirement allowance commences.

Features of Dual Membership

- Allows members to combine their service credit in all systems to qualify for benefits in each system.
- Allows a member to restore withdrawn contributions from a prior system within two years of establishing membership in the current system.
- Allows a member to combine service credit from all systems to qualify for a disability retirement, but only in their current system. If they qualify for a disability retirement, then can receive a service retirement from the prior system, including actuarial reductions.
- Allows the combining of service credit to determine whether or not a survivor benefit can be paid.
- Allows Plan 3 members to combine service credit from all systems to qualify for the indexing feature.
- Allows members to combine service credit from all systems to qualify for a survivor benefit. Many of the plans, including LEOFF Plan 2, require a minimum of 10 years

of service credit in order for the surviving spouse or eligible minor children to be eligible for a retirement allowance.

- Allows members to substitute the base salary from any of the systems as compensation used in calculating the retirement allowance. The base salary does not include overtime, vacation leave cash-outs or other similar types of compensation enhancements. This feature can be particularly attractive if the member's service in the inactive system occurred in the past when compensation was much lower.

Dual Membership Issues

- A dual member's benefit may not exceed the highest maximum benefit which they would be permitted to receive under one of the dual member systems from which they are retiring. For LEOFF Plan 2 members this becomes an issue if the member is a dual member and one of their dual member systems has a service credit limit. For instance, PERS and TRS Plan 1 have a 30-year (60%) benefit cap and WSPRS Plans 1 & 2 have a 75% benefit cap. Under this rule, the total sum of the retirement allowances under both systems can not exceed the largest amount the member would have received if all of the service had been rendered in any one of the systems. The benefit cap only becomes an issue if the capped system's salary is higher than the LEOFF Plan 2 salary.

Example

A person establishes membership in PERS Plan 1 prior to LEOFF Plan 2 then goes back into a PERS Plan 1 position and retires at age 54, with a total of 35 years combined service; 22 in PERS Plan 1 and 13 in LEOFF Plan 2.

Their LEOFF Plan 2 final average salary was \$40,000 per year. Their current PERS Plan 1 average final salary is \$60,000 per year (including leave cashouts or overtime). Their base PERS Plan 1 salary (no leave cashouts or overtime) is \$48,000 per year.

When they retire, the Department of Retirement Systems (DRS) will calculate their benefit in each system, based on the service credit and allowable salary for each system. Next, they calculate a benefit in each system as if all of the service credit had been earned in that system.

Finally, if the combined calculation is greater than the highest calculation of the "all in" calculation, then the combined benefits will be proportionately reduced. A detailed calculation of this example can be found in Appendix A.

- If a LEOFF Plan 2 member leaves employment, defers retirement, and their service credit in LEOFF Plan 2 is less than twenty years, they do not qualify for indexing even if they have combined service credit in excess of twenty years with all dual member systems.

Example

A person had four years of service credit in PERS Plan 2, was hired in a LEOFF Plan 2 position and worked for 18 years, and then quit at the age of 46.

At age 50, they would be eligible to retire out of both systems with a 3% reduction per year from age 53 in LEOFF Plan 2 and an actuarial reduction from age 65 in PERS Plan 2, or at age 53 without any reduction in LEOFF Plan 2, but would still have the actuarial reduction from age 65 in PERS Plan 2. In either case, the Final Average Salary (FAS) would not qualify for indexing because they have less than 20 years of service in LEOFF and their FAS would be based on salary from when they were 46 years old.

However, if they had been a PERS Plan 3 and SERS Plan 3 dual member, they would have qualified for indexing from the date of separation until their retirement date, even though all Plan 3 systems have the same 20 years of service requirement to qualify for indexing as LEOFF Plan 2. The difference is the portability statutes specifically allow any Plan 3 dual member to combine all service credit to qualify for indexing.

- Portability retirements do not work as well when the retirement eligibility rules of the systems are dissimilar.

Example

A member eligible to retire from LEOFF Plan 2 at age 53, who is also a member of PERS Plan 2, would be eligible to retire from PERS Plan 2 at age 53. However, the calculated benefit in PERS Plan 2 would be reduced by 69% to reflect the actuarial reduction for retiring twelve years early.

- If a member retires from LEOFF Plan 2 and then goes to work in a PERS Plan 2 eligible position (career change) when they retire out of PERS Plan 2, their benefit in PERS Plan 2 is based on their salary in PERS Plan 2. They can not use their LEOFF Plan 2 salary as they are not dual members.

6. Supporting Information

Appendix A – Example of the potential impact of the 30-year cap

Appendix B – Portability RCWs, 41.54

Appendix C – Portability WACs, 415-113